

OLYMPIA, WASHINGTON

July 12, 2005

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Christine O. Gregoire, Governor
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Tom Morrill, Assistant Attorney General
Dean Torkelson, Seattle-Northwest Securities
Darlene DeRose, Montague DeRose & Associates
Noah Crocker, Office of the State Treasurer
Sue Melvin, Office of the State Treasurer
William Tonkin, Foster Pepper & Shefelman
Vicki Cox, Office of the State Treasurer
Susan Musselman, Susan D. Musselman Inc.
Shad Pruitt, Office of the State Treasurer
Amy Arnis, Department of Transportation
Nancy Adams, Office of the State Treasurer
Michael Cate, King TV
Benjamin J. Juergens, Orrick Herrington & Sutcliffe
Douglas E. Goe, Orrick Herrington & Sutcliffe
Annette Sommer, Seattle-Northwest Securities
Bill Starkey, Seattle-Northwest Securities
Claudia Lindahl, Department of Transportation
Thanh Nguyer, Department of Transportation
Ron Niemi, Department of Transportation
Shawn Tacey, Tacey Lamb LLP
Mark Lamb, Tacey Lamb LLP
Mike Roberts, Office of Financial Management
Pam Johnson, Office of the State Treasurer
Susan Penley, Office of the State Treasurer
Mike Steenhout, Office of Financial Management
Victor Moore, Office of Financial Management
Kate L. Brown, Office of the Governor
Barton Potter, Office of the State Treasurer
Adam Wilson, The Daily Olympian
Jerry Cornfield, Everett Herald
Svein Braseth, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the April 20, 2005 meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Chairman Murphy said there was an adjustment to the agenda and proposed Resolution No. 1019 would be considered first. Mr. Martin said proposed Resolution No. 1019 accepts the bids for the purchase of State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2006A, in the aggregate principal amount of \$466,630,000, more or less, as authorized by Chapters 39.42 and 39.53 RCW and Resolution Nos. 875 and 945 of the Committee. Mr. Martin said five bids were received and accepted electronically through Parity at 7:30 a.m. Pacific Time.

Mr. Torkelson summarized the bonds being refunded in this sale. He said today's sale refunded almost \$480 in outstanding bonds through the issuance of \$461 million in refunding bonds. The gross savings on the bonds were approximately \$53 million. He said the net present savings was almost \$36 million providing for a 7.8% savings ratio. This ratio exceeds the minimum 5% savings ratio required by the Committee. Morgan Stanley & Co., Inc. submitted a true interest cost (TIC) of 4.0372291%; Merrill Lynch & Co. submitted a TIC of 4.0381058%; Citigroup Global Markets Inc. submitted a TIC of 4.0393611%; J.P. Morgan Securities Inc. submitted a TIC of 4.0457395%; and UBS Financial Services Inc. submitted a TIC of 4.0511055%, with the apparent low bidder being Morgan Stanley & Co. Chairman Murphy said the bids came in literally seconds before the 7:30 a.m. deadline.

Mr. Martin presented proposed Resolution 1019 to the committee.

Resolution 1019 awards the sale of \$466,630,000, more or less, State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2006A, authorized by Chapters 39.42 and 39.53 RCW and Resolutions Nos. 875 and 945 of the Committee.

Lt. Governor Owen moved to adopt Resolution 1019. Governor Gregoire seconded the motion and the resolution was adopted.

Chairman Murphy said this was not on the agenda but he had received a request for input from citizens for public comment on today's bond sale. Mr. Lamb identified himself as being with the law firm of Tacey Lamb. He said "This law firm represents Initiative 912 which will be placed on the November ballot thanks to the signatures of over 420,000 residents of Washington State. On behalf of our client, we respectfully request that the State Finance Committee refrain from taking any action that would obligate the State to continue to collect the motor vehicle fuel tax increase passed by the 2005 Legislature, after December 8, 2005. We commend Governor Gregoire for stating yesterday that, 'I just don't think we ought to be selling bonds when there's a potential that it will not go forward.' At a minimum, it is our belief that the following cautionary language should be placed in all contracts and offering documents or other materials used in connection with any bond financing to preserve the constitutional right of the people to accept or reject Initiative 912: 'The parties to this contract, transaction, or agreement hereby acknowledge and agree that the motor vehicle fuel tax rates enacted by the 2005 Legislature may be repealed by Initiative 912. The parties further acknowledge that no performance, promise or other obligation by any party herein is given or made in expectation of or in reliance upon revenues from the motor vehicle fuel tax rate increases enacted by the 2005 Legislature.'" Lt.

Governor Owen said the Committee never sells bonds if there is a cloud over them. Chairman Murphy asked if there was any more discussion, then said the issue was whether or not to go forward with the authorization of the bond sale. Chairman Murphy said the bonds could be downsized to encompass that portion of the bonds.

Lt. Governor Owen said if people wanted to stop the increase in gas prices, they should find out who the gas companies are and why they raise prices. He said it frustrated him that the Legislature tried to solve the problem of lack of revenue and felt gas companies should be taken to task on their prices. Treasurer Murphy also received written recommendation from Richard Stephens of Groen Stephens & Klinge saying "Initiative 342 which repeals weight fees and other vehicle fees which would make pledging those sources of income as security for bonds inappropriate. ...the purchasers should be notified of this initiative given that the initiative repeals those sources of income and requires defeasement of bonds if the measure is approved."

Mr. Martin said Proposed Resolution No. 1016 provides for the issuance of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006B, of the state, in the principal amount of not to exceed \$267,000,000, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005; and Ch. 39.42 RCW; and State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006C, of the state, in the principal amount of \$55,000,000, more or less, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); and Chapter 39.42 RCW; for the purpose of providing funds to pay and reimburse state expenditures for construction of selected transportation projects or improvements and improvement of state and local highways; fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds. The Department of Transportation included a letter describing the projects to be funded with the bond proceeds. The Series 2006B Bonds are proposed to be sold competitively on August 16, 2005. The Series 2006C Bonds are proposed to be sold competitively on September 7, 2005 and are tax exempt bonds for the Tacoma Narrows Bridge Project.

Mr. Tonkin said the structure of the Section 16 of the resolution is flexible enough to go forward with the bond sales in August and September. He said the size of the bonds could be modified. Chairman Murphy said the Committee would not issue debt that was clouded. Ms. Amy Arnis, Department of Transportation, said the Department was prepared to work with the Office of the State Treasurer to revise the project totals as needed. Chairman Murphy said if it was the wish of the Committee, they could offer a motion to modify the process. Governor Gregoire said she wanted to move forward but directed that the size of the debt be modified in light of the Initiative 912. She said if I-912 is validated, then those gas tax revenues would not be included in the sold bonds.

Mr. Martin presented proposed Resolution 1016 to the committee.

Resolution 1016 authorizes the issuance and sale of not to exceed \$267,000,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006B, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005; and Chapter 39.42. RCW; and \$55,000,000, more or less, of State of

Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006C, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); and Chapter 39.42 RCW.

Governor Gregoire moved to adopt Resolution 1016 with the condition that the size of the debt be modified in light of Initiative 912. Lt. Governor Owen seconded the motion as conditioned by Governor Gregoire and the resolution as conditioned by Governor Gregoire was adopted.

Mr. Martin said proposed Resolution No. 1015 provides for the issuance and sale of not to exceed \$229,915,000 State of Washington Various Purpose General Obligation Bonds, Series 2006A, authorized by Chapter 14, Laws of 1989, 1st Ex. Sess; Chapter 15, Laws of 1990, 1st Ex. Sess; Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess; and Chapter 39.42 RCW for the purpose of providing funds to pay and reimburse the state for various state capital project expenditures, and state buildings and facilities for institutions of higher education expenditures; fixing the date, form, terms, maturities, redemption provisions and covenants of the Bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said Bonds. The Series 2006A Bonds are proposed to be sold competitively on August 16, 2005.

Mr. Martin presented proposed Resolution 1015 to the committee.

Resolution 1015 authorizes the issuance and sale of not to exceed \$229,915,000 State of Washington Various Purpose General Obligation Bonds, Series 2006A, authorized by Chapter 14, Laws of 1989, 1st Ex. Sess; Chapter 15, Laws of 1990, 1st Ex. Sess; Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess; and Chapter 39.42 RCW.

Governor Gregoire moved to adopt Resolution 1015. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1017 provides for the issuance and sale of not to exceed \$64,235,000 State of Washington General Obligation Bonds, Series 2006T (Taxable), authorized by Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 487, Laws of 2005; and Chapter 39.42 RCW, for the purpose of providing funds to pay the state for housing assistance, weatherization and affordable housing project expenditures, Washington State University Tri-Cities Bioproducts Facility, and transfer of funds from the State Taxable Building Construction Account to the State Drought Preparedness Account; fixing the date, form, terms, maturities, redemption provisions and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds.

Chairman Murphy said the staff should be commended for the good catch they made on ascertaining the Washington State University's portion of the bond proceeds would be used for non-governmental purposes. The Internal Revenue Code ("IRC") limits the volume of tax-exempt bonds that may be issued to finance activities or facilities used for nongovernmental purposes (IRC Section 141). Nongovernmental purposes include use of bond proceeds to pay the costs of facilities expected to be owned or used by, or to make any loan to, (a) the federal

government (including any federal department or agency), (b) any private nonprofit corporation (including any 501(c)(3) organization), and (c) any other private entity, such as a business corporation, partnership, limited liability company, or association, etc.

Governor Gregoire asked why the Bioproducts Facility would be considered as non-governmental. Mr. Tonkin said it was not clearly distinguished between the contractor and sponsor so had to be considered as nongovernmental. Chairman Murphy said the bond sale was done in two pieces: tax exempt was done long term and the taxable piece was done short term thereby providing for an economic benefit to the state.

Mr. Martin presented proposed Resolution 1017 to the committee.

Resolution 1017 authorizes the issuance of not to exceed \$64,235,000 State of Washington General Obligation Bonds, Series 2006T (Taxable), authorized by Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 487, Laws of 2005; and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution 1017. Governor Gregoire seconded the motion and the resolution was adopted.

Ms. Sue Melvin, Lease Purchase Specialist, addressed the Committee. She said the State Finance Committee is charged with oversight of financing contracts entered into by the state and related policy guidelines (RCW 39.94.040). At the start of each biennium, administrators of the Lease/Purchase program report to the Committee on prior usage of financing contracts and present a proposed financing plan for the upcoming biennium. In addition, the State Finance Committee is required from time to time to establish an aggregate principal amount payable for financing contracts entered into by the state. Ms. Melvin's memorandum presented: 1) a report on tax compliance for publicly offered Certificates of Participation; 2) a proposed finance plan for the issuance of Certificates of Participation during the 2005-2007 biennium; 3) a threshold for financings requiring individual approval by the committee; and 4) related proposed action item including establishing a maximum aggregate principal amount of financing contracts entered into by the state.

Ms. Melvin requested the Committee accept the proposed financing plan. Governor Gregoire moved the motion with the restraint that the Committee not include bonds with revenues from the motor vehicle fuel taxes enacted by the 2005 Legislature. She said I move that the Committee pursuant to RCW 39.94.040 approve and direct the State Treasurer to implement the finance plan set forth in the memorandum to the Committee dated July 5, 2005 providing for State financing contracts and issuance of Certificates of Participation therein during the 2005-2007 biennium. The motion includes :

(a) The aggregate principal amount of financing contracts (including certificates of participation therein) of the state is established at \$975,000,000 for the 2005-2007 biennium;

(b) Any refinancing contract (including issuance of refunding certificates of participation therein) that meets the Committee's Debt Issuance policy savings threshold is approved;

(c) Any individual, legislatively authorized state financing contract (including issuance of certificates of participation therein) of \$6,000,000 or less is approved; and

(d) Any individual, legislatively authorized state financing contract (including issuance of certificates of participation therein) in excess of \$6,000,000 shall require separate approval by resolution of the Committee.

Lt. Governor Owen seconded the motion and the motion was adopted.

Mr. Noah Crocker presented proposed Resolution No. 1018 approving the forms of a State Agency Financing Lease and related documents to be entered into by the State Department of Transportation to finance the Olympic Region Headquarters Facility project and authorizes, in one or more series, the issuance and sale of up to \$34,874,000 (plus financing expenses and required reserves) of State of Washington Certificates of Participation authorized by Chapter 313, Laws of 2005, Section 304(5)(a). The Department of Transportation received authorization from the Legislature pursuant to Chapter 313 Laws of 2005, Regular Session, Section 304 paragraph 5 (a), (2005-2007 transportation budget) to use certificates of participation for the financing of the Olympic Region Headquarters Facility in the 2005-2007 biennium.

Mr. Crocker said proceeds of the sale will be used to purchase 37.68 acres of land at 32nd Avenue NE on Marvin Road in North Thurston County and construction of an approximately 100,000 square foot office building to house Region administrative staff, Real Estate Services, Traffic and 4 satellite project engineer offices. A second structure will be a 60,000 square foot light industrial building, which will house the Region equipment shop, stores, parts, radio, carpenter shop, striping, and signals. The Olympia Region Headquarters houses staff responsible for the construction, maintenance, and operations of highway systems in Pierce, Thurston, Kitsap, Jefferson, Clallam, Grays Harbor, and Mason Counties. The new site is located in a light industrial and business zoned area, which is very accessible to the interstate and will uniquely support the co-location of all regional functions. The new facility replaces the 1930's vintage Olympic Region Headquarters Facility at 5720 Capital Boulevard South, Tumwater and three leased Project Engineer Offices. Construction is expected to be completed in June, 2008.

Mr. Crocker presented proposed Resolution 1018 to the committee.

Resolution 1018 approves the forms of a State Agency Financing Lease and related documents to be entered into by the State Department of Transportation to finance the Olympic region project and authorizes, in one or more series, the issuance and sale of up to \$34,874,000 (plus financing expenses and required reserves) of State of Washington Certificates of Participation authorized by Chapter 313, Laws of 2005, Section 304(5)(a).

Governor Gregoire moved to adopt Resolution 1018. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Shad Pruitt reported to the Committee that in April, the state of Washington (the "State"), acting through the Office of the State Treasurer ("OST"), issued a Request for Proposal ("RFP") seeking firms to serve as financial advisor to the State's Lease Purchase Program. The State received proposals from several qualified firms. Those proposals were reviewed and

evaluated by a selection committee of representatives from the OST familiar with the services requested. The selection committee also interviewed two finalists.

Mr. Pruitt said Susan D. Musselman, Incorporated has been selected as the successful offer in response to the RFP to serve as financial advisor to the State's Lease Purchase Program. OST selected the financial advisor based on the proposal and interview that, in their opinion, best met the RFP requirements and is in the best interest of the State. The appointment is effective July 1, 2005. The initial contract period is July 1, 2005 through June 30, 2007, with an option, on the part of the State, to renew the contract for up to two additional one-year terms. Ms. Musselman thanked the Committee for the opportunity to work for the Office of the State Treasurer.

There being nothing further to come before the committee, the State Finance Committee meeting was adjourned at 11:06 a.m. and the Public Deposit Protection Commission meeting was called to order.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Christine O. Gregoire, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary